

STATE OF NEW YORK,
PUBLIC SERVICE COMMISSION

Complaint of AT&T Communications of New York, Inc.
Against Bell Atlantic-New York's Management of the
Primary Interexchange Carrier Program : Case 00-C-0897
and
Proceeding on Motion of the Commission to Examine
the Migration of Customers Between Local Carriers : Case 00-C-0188

REPLY COMMENTS
OF
ELIOT SPITZER
ATTORNEY GENERAL
OF THE
STATE OF NEW YORK
REGARDING PIC FREEZE PROPOSALS

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INTRODUCTION

This proceeding concerns the Public Service Commission's ("PSC" or "Commission") ongoing effort to bring the benefits of competition in telecommunications markets to New York customers. In particular, the Commission has grappled over several years with the needs of customers to have protection from unauthorized changes in their choice of telephone service provider, termed "slurting," while at the same time seeking to ensure that all competing providers are accorded a fair opportunity to compete. Beginning in 1984, when long distance competition was jump-started by the break-up of AT&T, customers were granted the right to "freeze" their choice of long distance provider so that it could not be altered without verifying the customer's consent.¹

¹ At the outset, the administration of the customer's choice of long distance (interLATA or interexchange) provider (presubscribed interexchange carrier, or "PIC") was assigned to the local service provider, which, for most New York customers, was New York Telephone Company (now called Verizon New York, Inc., "Verizon"). Verizon was barred from offering long distance service in New York State until January 2000. The optional system of freezing a customer's choice of long distance provider ("PIC freeze") was expanded to include an option to also freeze the customer's choice of regional (intraLATA toll) provider after this market became competitive in 1995.

With the advent of local competition in New York, especially in the wake of the Telecommunications Act of 1996, many New York customers have begun to have a choice of provider for local telephone service. In 2000, the PSC opened a new proceeding (the "Migration Proceeding") to address numerous issues in the relationship between competing local providers. This proceeding sought, *inter alia*, to "have in place a means by which customers can change local service carriers efficiently and seamlessly, while ensuring that customers' preferred local carrier is not changed without authorization."¹

On January 24, 2000, Verizon² filed with the PSC a proposed tariff that would make available to customers a local service provider freeze.³ Implementation of this tariff provision was suspended by the Commission to consider the effect a local service freeze would have on the development of competition in New York's local market.

¹ Case 00-C-0188 - *Proceeding on Motion of the Commission to Examine the Migration of Customers Between Local Carriers, Order Instituting Proceeding*, issued January 26, 2000 (the "Migration Proceeding").

² Verizon New York was then named New York Telephone Company, d/b/a Bell Atlantic-New York.

³ See, proposed PSC No. 900-Telephone, Section I, original page 253, issued January 24, 2000, to become effective April 24, 2000.

On May 18, 2000, AT&T filed a complaint and petition with the PSC³ which asserted that Verizon's use of an automated system (a voice response unit, or "VRU") to receive and process calls from customers seeking to lift existing PIC freezes (so as to enable them to effect a change of long distance or regional provider) hindered customer choice in these markets. After receiving comments on the AT&T Complaint from WorldCom, Teligen, MetTel, Z-Tel and Verizon, the PSC issued an *Order To Show Cause, Requesting Comments And Closing Case* on March 25, 2001.⁴ The Commission, *inter alia*, made a number of findings and directed that the parties submit further comments on specific issues. The Attorney General files these reply comments in response to the Commission's March 23, 2001 *Notice Soliciting Comments* (which accompanied the *Order* of the same date) and the initial comments filed by Verizon,⁵ AT&T,⁶

³ See, Case 00-C-0897, *supra*. This complaint revived complaints previously lodged by AT&T, Sprint and WorldCom dating back to the Commission's December 23, 1998 order which approved Verizon's VRU-based PIC freeze plan. Cases 28425, *et al.*, *Order Adopting New York Telephone Company's IntraLATA Freeze Plan with Modifications*. Although the PSC denied rehearing petitions of AT&T and WorldCom objecting to this December 23, 1998 Order at its session in September 1999, no order was issued. AT&T complained that those customers who failed to navigate the VRU successfully defaulted to Verizon personnel who attempted to win their local service back to Verizon, as well as sell them Verizon's long distance and regional services. AT&T also charged that Verizon placed freezes on customers' choice of long distance or regional provider without their authorization, a practice dubbed "jamming." AT&T further complained that long distance and regional competitors were being denied equal access to Verizon's database records identifying which customers' choices had been frozen.

⁴ The Order was issued in the Migration Proceeding, in Case 00-C-0897, *supra*, and four other proceedings.

⁵ Verizon urges the expansion of the PIC freeze to include local service, but asserts that no change in its existing PIC freeze administration is warranted. Verizon asserts that customers can use its automated computerized phone-in system (voice response unit or "VRU") to effect PIC changes and unfreeze their current selection without any direct dealings with Verizon personnel. Verizon further asserts that its personnel are prohibited by company rules from influencing customers' efforts to change providers or remove PIC freezes. See, *Verizon New*

- MetTel,⁹ WorldCom¹⁰ and Allegiance Telecom, Inc.¹¹

New York Inc.'s Comments on PSC Freeze Administration Issues and Response to Order to Show Cause, Filed May 8, 2001.

⁹ AT&T asserts that Verizon's administration of the current PSC freeze system provides Verizon with unfair advantages over its competitors. AT&T complains that Verizon's VRU requires customers to input a six-digit identification code from their monthly bill, and callers who do not have their bill handy at the time are transferred to Verizon staff who can discourage consumers from making the provider change. AT&T urges that the PSC transfer administration of the PSC freeze to a disinterested neutral party to ensure a level competitive field. See, *Comments of AT&T Communications of New York, Inc. in Response to the Commission's Request for Comments Regarding Proposed Changes or Alternatives to the Current System by which Verizon Administers its PSC Freeze Program*, Filed May 8, 2001.

¹⁰ MetTel also criticizes Verizon's system as unfair to competitors and supports establishment of a neutral entity to administer the PSC freeze system similar to the AT&T

proposal. See, *Comments of Metropolitan Telecommunications, Inc.*, filed May 8, 2001.

¹⁵ WorldCom opposes Verizon's existing processes as cumbersome for consumers to navigate and vulnerable to employee efforts to win back customers while they are seeking to change providers. WorldCom proposes to modify the PIC Freeze system by electronically recording customers' authorization for the lifting of a freeze and transmitting this in the form of a digitized "wav" file to Verizon over the internet. See, *WorldCom's Initial Comments and Response to Verizon's Request for Limited Reconsideration and Clarification*, filed May 8, 2001.

¹⁶ Allegiance generally supports the initial comments filed by AT&T and opposes those of Verizon. See, *Reply Comments of Allegiance Telecom of New York, Inc.*, filed May 24, 2001.

THE COMMISSION'S MARCH 23, 2001 ORDER

The Commission made numerous rulings in the March 23, 2001 *Order and Notice*. First, it ruled that when selling long distance service, Verizon Long Distance sales agents may not provide their potential new customers with the security code required to use the VRU since its long distance and regional competitors have no access to this information.¹² Second, the PSC noted that customers' ability to use a three-way conference call¹³ instead of the VRU to effect a change authorization "depends on how assertive a customer is in refusing the VRU"¹⁴ and directed Verizon to comply with FCC rules allowing use of this alternative process.¹⁵ Third, the PSC found AT&T's evidence of alleged cross-selling by Verizon employees during three-way calls insufficient to find anticompetitive behavior on Verizon's part¹⁶ without conducting a targeted investigation that would entail contacting individual customers. Fourth, the PSC concluded that patterns in freeze data for interLATA and intraLATA service were inconsistent

¹² Verizon's automated system for authorizing customer PTC changes after a freeze has been requested requires entry of a six-digit code found on the customer's Verizon local bill.

¹³ This optional process would allow a competitor speaking by telephone with a customer to connect to a Verizon representative and remain available to assist while the customer authorizes the provider change.

¹⁴ *Id.* at II.

¹⁵ See, CC Docket No. 94-129, *Implementation of the Subscriber Carrier Selection Change Provisions of the Telecommunications Act of 1996 and Policies and Rules Concerning Unauthorized Changes of Consumers' Long Distance Carriers, Second Report and Order*, issued December 23, 1998. See also, 47 C.F.R. Chapter 1, Subchapter B, Part 64, Subpart K, *Changing Long Distance Service*, § 64.1100, *et seq.*

¹⁶ AT&T had presented results of a survey it commissioned, but the only records of customer reports about Verizon employee activities were those noted by the survey company staff.

with Verizon's denials of AT&T's roaming charges, but that there was not persuasive proof of unauthorized freezing of customer choices by Verizon. Fifth, the Commission deferred action on Verizon's proposed local PIC freeze tariff, pending a more comprehensive review of the entire PIC freeze system, noting the potential conflict between protecting customers from slaming and avoiding the erection of barriers to local service competition.

Additionally, in its March 23, 2001 Order, the PSC recognized that some customers who exit the VRU must wait long periods before reaching a Verizon representative who can orally handle the change request, but noted that this delay is no different from the experience of customers seeking to switch to Verizon's service offerings rather than a competitor. Therefore, the Commission asked parties to comment on whether such calls should be handled by a separate group of Verizon employees who receive no financial incentive for selling Verizon services. Rather than engage in a more detailed inquiry into competitors' charges, the Commission called for further comment on alternatives to Verizon's current PIC freeze system.

Finally, the PSC's March 23, 2001 Order determined that when customers are signed up for Verizon long distance service, the Verizon representative accessed in real time one database indicating whether the customer's account is frozen, while competitors must attempt to use another system that is less functional and more costly. Therefore, the PSC ordered Verizon to show cause why it should not make equivalent customer freeze status information available to all providers.

SUMMARY OF ATTORNEY GENERAL'S REPLY COMMENTS

With Verizon's entry into long distance, and its dominant share of the regional market,

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¹³ This optional process would allow a competitor speaking by telephone with a customer to connect to a Verizon representative and remain available to assist while the customer authorizes the provider change.

¹⁴ *Id.* at 11.

¹⁵ See, C.C. Docket No. 94-129, *Implementation of the Subscriber Carrier Selection Change Provisions of the Telecommunications Act of 1996 and Policies and Rules Concerning Unauthorized Changes of Consumers' Long Distance Carriers, Second Report and Order*, issued December 23, 1998. See also, 47 C.F.R. Chapter 1, Subchapter B, Part 64, Subpart K *Changing Long Distance Service*, § 64.1100, et seq.

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With Verizon's entry into long distance, and its dominant share of the regional market,

Verizon should no longer continue as the gatekeeper that administers the PIC freeze system in New York. Instead, the PSC should require that a competitively neutral PIC freeze system be administered by an independent entity that will treat all competing providers equally.

Competition in the local market has further developed. Some evidence of local service slamming exists. Thus, the Commission should now expand the independently operated PIC freeze system to include local provider choice at the customer's option, as long as administration of the PIC freeze system is transferred to a neutral party. Once all providers have equal access and are treated equally, the impact of a local PIC freeze upon competition will be minimized.

INTEREST OF THE NEW YORK STATE ATTORNEY GENERAL

The Attorney General's interest in this proceeding is twofold. As the primary enforcer of New York laws protecting consumers from fraudulent and deceptive business practices, the Attorney General's office has used General Business Law §§ 349-350 and Executive Law § 63(12) to enjoin slammers who prey upon New York consumers, and to obtain restitution for the victims of such abuses. In addition, as an enforcer of state and federal antitrust laws, the Attorney General is concerned that markets become and remain competitive, thereby benefiting customers.

BACKGROUND

Soon after competition emerged in the late 1980's in long distance markets, many consumers' long distance PICs were switched to another carrier without the customers' knowledge or consent (a practice dubbed "slamming" and prohibited by law and regulations).¹⁷

¹⁷ The Attorney General's Office has undertaken numerous enforcement actions against long distance service slammers and has been active, both individually and as a member of the

In response to this slamming problem, the Federal Communications Commission ("FCC") and the Public Service Commission ("PSC" or "the Commission") directed that customers have an option to "freeze" their long distance carrier selection so that the PIC could not be changed without their express consent. Customers have to request that their local service provider place a freeze on their presubscribed carrier selection, and then must personally confirm all PIC changes ("unfreeze" their PIC) before a new carrier can be assigned.

When, beginning in 1995, customers became able to choose among competing regional service (interLATA toll) providers, they could designate either the same or a different carrier for long distance and regional service. The local service provider again was given the responsibility of administering the regional PIC. Customers were also allowed the option of placing a freeze on their regional carrier PIC. Although at the time Verizon was barred from offering long distance service, it was the dominant provider of regional service. Nonetheless, the PSC permitted Verizon to automatically apply customers' pre-existing long distance PIC freezes to freeze regional service PICs unless the customer instructed otherwise.

In 1997, the New York State Legislature enacted Public Service Law § 92-c.¹³ finding that:

... [U]nauthorized changes in telephone service providers are a deceptive practice in conducting business and an action that causes injury to customers, and ...

National Association of Attorneys General, securing the passage of legislation and the adoption of regulations to combat slamming and provide remedies for victimized customers.

¹³ The statute became effective on January 20, 1998.

Unauthorized changes in telephone service providers may subject customers to excessive telephone charges, require time and effort to reverse changes, and deprive customers of a choice of telephone providers.

PSL § 92-e provides, *inter alia*, that the Commission may assess administrative penalties up to one thousand dollars per slamming violation and may adopt rules which require telephone providers to effect a "freeze procedure in a nondiscriminatory and competitively neutral manner."¹⁶

The recent growth of competition in New York long distance, regional and local telephone service markets means that many customers have a choice of multiple providers in each type of service, and some providers have begun to offer bundled "all distance" telephone service plans.

When the Commission instituted this migration proceeding in January 2000, it convened a series of meetings for the local service competitors to work out collaboratively the specific mechanisms that are necessary for customers' choices to switch local service providers to be effected smoothly. To date, the migration collaborative has reached agreement in its initial phase on a set of general principles for provider cooperation and sharing of customer records which

¹⁶ PSL § 92-e.4.

were adopted by the PSC.²⁹

ARGUMENT

THE COMMISSION SHOULD PERMIT A PIC FREEZE FOR ALL SERVICES AND SHOULD SELECT A NEUTRAL ENTITY TO OPERATE A LONG DISTANCE, REGIONAL AND LOCAL PIC FREEZE SYSTEM

- A. **Verizon's Entry into the Long Distance Market in New York Requires That it Be Removed as the PIC Freeze Administrator**

²⁹ See, Case 00-C-0188, *supra*, Order Adopting Guidelines, issued and effective January 8, 2001. In the second phase of the collaborative, the parties are addressing the myriad detailed technical requirements for effecting customer decisions to change local service providers, as well as necessary enforcement and accelerated inter-carrier dispute resolution mechanisms. Largely because of the multiple forms of competitor entry in the local service markets (as resellers, unbundled network element lessors, full facility-based providers, or a hybrid of the latter options) and the need to coordinate the systems of network providers and both the old and new service providers with vastly differing scales of operation and investments in technology, this process has taken and continues to take considerable time.

While there were sound policy and technical reasons supporting the post-divestiture decision to require the incumbent local exchange carrier ("ILEC") to administer the PIC freeze system established to reduce consumer exposure to slamming, the telecommunications arena has changed radically since the 1980s. With Verizon's entry and rapid expansion into the long distance market in New York, Verizon's long distance and regional PIC freeze administration must be reexamined in light of the current and potential effects it may have on competition in New York.²¹

The allegation made in the initial comments of WorldCom, AT&T and MetTel strongly suggest that reliance upon Verizon's automated VRU to ensure competitive neutrality in administering the long distance and regional PIC freeze system is unsatisfactory. Verizon's automated system requires that customers seeking to unfreeze their PIC so as to change long distance or regional service providers must first enter a special code found only on the customer's monthly bill. This security measure severely restricts the applicability and usefulness of the VRU system even though it is intended to prevent unauthorized unfreezing of the customer's PIC.

²¹ To date, Verizon has captured at least 20% of the residential long distance market in New York, and expects to surpass two million lines before the end of 2001. *Barron's*, June 4, 2001, p. 19.

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For long distance and regional competitors, having won a customer over to their offering may prove of little use if a POC freeze is in place because all too often, the customer does not have his/her monthly phone bill at hand to locate the security code required to use the VRU.² Indeed, for customers who currently receive separate billing for their long distance service from a competitor, it appears illogical and confusing for them to have to consult their Verizon local bill to locate a numeric code necessary to unfreeze their choice of long distance provider so as to make a switch.

Instead of efficiently completing the change authorization process, customers who either do not have their Verizon bill handy or for other reasons opt out of the VRU system must be diverted to wait for an available representative of Verizon to screen their authorization orally. If the waiting time is lengthy, consumers may hang up and the sale is lost. WorldCom reports that many customers are confused and frustrated by having to take extra steps to unfreeze their current long distance or regional choice after deciding to take another provider's offer, and abandon their effort rather than endure the steps required for unfreezing their POC.³

² See, *Comments of AT&T, supra*, pp. 13-14.

³ See, *WorldCom's Initial Comments, supra*, pp. 11-12.

While a customer who opts to speak to a live representative instead of the Verizon VRU waits the Verizon employee to come on the line, a Verizon marketing recording is played.²⁴ Once a Verizon representative comes on the line, the competitor's marketing employee must be disconnected before the customer can proceed with the Verizon employee to go through the steps required to unfreeze the PIC, so that a new provider can be assigned. Such Verizon personnel routinely direct the customer to return to the VRU, which can discourage customers from making a provider change.²⁵ Although competitors have alleged that some Verizon employees actively interfere with customer's attempts to switch their service from Verizon to other providers by seeking to cross sell Verizon's service,²⁶ Verizon insists that their policy instructions forbid such behavior.²⁷

Absent random, ongoing independent monitoring of such calls, the PSC cannot be assured that these customer interactions with Verizon personnel are consistently handled so as to be competitively neutral. Continuation of the *status quo* is likely to generate further complaints from competitors, and tie up valuable PSC resources investigating each new dispute.

Given the extreme difficulty of independently monitoring the actions of Verizon personnel to ensure that no bias is used to favor the ILEC, sound policy dictates that the PSC change the system to one which employs a neutral entity (either a not-for-profit or a for-profit company) to process PIC freeze changes and verify consumer authorizations. Putting all

²⁴ *Id.*, pp. 13, 14.

²⁵ *Id.*, p. 13.

²⁶ See, *Comments of AT&T*, *supra*, pp. 17-18.

providers on equal footing for all services eliminates the need to guard against anticompetitive abuses, and ensures that Verizon has no special advantages over its competitors.

²⁷ See, *Verizon's Comments, supra*, pp. 15-16.

For example, the system now used by Verizon to determine whether the customer has a freeze in place is separate from the database made available to competitors for this purpose.¹⁶ This use of separate systems necessarily raises questions about disparity of access, data accuracy, and cost. None of these problems would even arise if Verizon and its competitors were all required to rely on a single neutral party selected through competitive bidding to administer an independent PIC freeze system. As the Commission is considering whether it should require Verizon to use separate personnel (who have no incentive to sell Verizon services) to handle customer requests to lift their PIC freezes, transfer of the PIC freeze administration to a neutral entity would alleviate future need to monitor such Verizon employee behavior.

Thus, the PSC should adopt the AT&T/MetTel proposal for a neutral PIC freeze administrator, and issue a request for proposals from interested companies so that the details of such a system can be promptly resolved. It appears from the comments of Allegiance, AT&T

¹⁶ While Verizon employees have real time access to customers' freeze status through the ICRIS system, Verizon prohibits competitors' use of the same system. Instead, competitors must access Verizon's separate Express Electronic Access system ("EEA") which the PSC found has not worked for competitors due to firewall problems. Although Verizon's operations support systems ("OSS") can be accessed by local service competitors and includes freeze status information, Verizon has forbidden its use by long distance service competitors.

and MetTel that at least some providers are ready and willing to bear their proportionate cost of maintaining such a neutral PIC freeze administration.²⁴

²⁴ We believe that the WorldCom proposal to allow competitors to record customer authorizations using the customer's social security number instead of their Verizon bill code and then have the provider transfer these recordings to Verizon over the Internet as an alternative to using Verizon's VRU system may cause more complexity than is justified, raise serious privacy issues and would at best serve as an interim solution.

When all such administrative steps are accomplished, the new PIC Freeze system should be transferred to the neutral administrator. Only then should the Commission take action to expand the PIC freeze option to include local as well as regional and long distance provider choices. It would be inefficient to direct that Verizon expand the existing system to include local service freezing just as a new entity is to be assigned the job of PIC freeze administration.²⁰ The Commission should also consider allowing the neutral PIC freeze administrator to employ technology similar to Verizon's VRU system, if such automation would prove a cost effective option compared with handling all such calls using live personnel. Once the dominant competitor has been removed from administering the PIC freeze administration, competitors can more readily reach agreement on the most efficient and fair means to automate a PIC freeze process that is independently controlled.

B. The State of Local Competition in New York Supports Providing the Option of a PIC Freeze in All Services

²⁰ While many consumers may prefer to freeze all three provider choices, allowance should be made to freeze one, two or all. Some consumers may wish to freeze their choice of local and/or regional provider while leaving long distance unfrozen, so as to make anticipated long distance provider changes less cumbersome while discouraging unauthorized changes of local and regional providers.

Since Verizon received permission to enter the long distance market in New York in January 2000, twenty percent of local customer lines are being served by non-ILEC providers as of the end of 2000 (with further growth in the first half of 2001).³¹ Slamming of local service has reared its head in New York, albeit minimally. For example, the Commission has recently commenced enforcement action against Z-Tel for persistent local service slamming despite repeated informal regulatory efforts to get the company to cease its illegal practice.³²

A year ago, the Attorney General urged that if the Commission were to consider a local PIC freeze, it should only do so in the context of the newly instituted Migration Proceeding collaborative, giving that proceeding an opportunity to develop the details for a smooth process enabling customer migrations between local service providers.³³ Although some progress has been made to date in establishing general guidelines requiring competitors to cooperate in

³¹ FCC Common Carrier Bureau, Industry Analysis Division, *Local Telephone Competition: Status as of December 31, 2000*, issued May 21, 2001, Table 6, *End-User Lines Served by Reporting Local Exchange Carriers*. This semi-annual report has a five-month delay in publishing updated data.

³² See, e.g., Case 01-C-0610 - *Notice of Apparent Liability for Slamming*, issued by the PSC against Z-Tel May 2, 2001.

³³ See, *Reply Comments of Eliot Spitzer*, filed April 28, 2000 in Case 00-C-0188, *supra* (in which Verizon sought permission to impose a local PIC freeze tariff).

transferring customers to their local service provider of choice, resolution of the complex details involved have not yet been hammered out. At this point, adoption of the neutral PIC freeze administrator proposal from AT&T and MetTel would largely address the Attorney General's concerns regarding the competitive impact of Verizon's administering all PIC freezes and put Verizon on the same footing as competitors in dealing with an independent PIC freeze administrator.

Carrier to Carrier Service Center, PIC Administration, PIC Freeze, and CSR Database

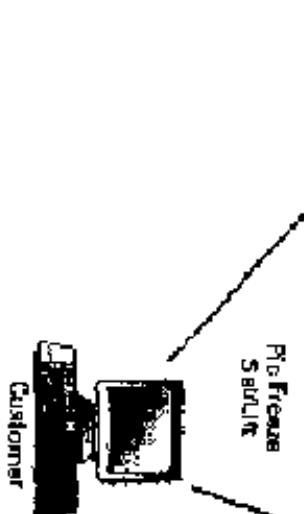
Interexchange Carrier (IXC)

C2C Service Center
PIC Freeze Data Query

Current Local Service Provider



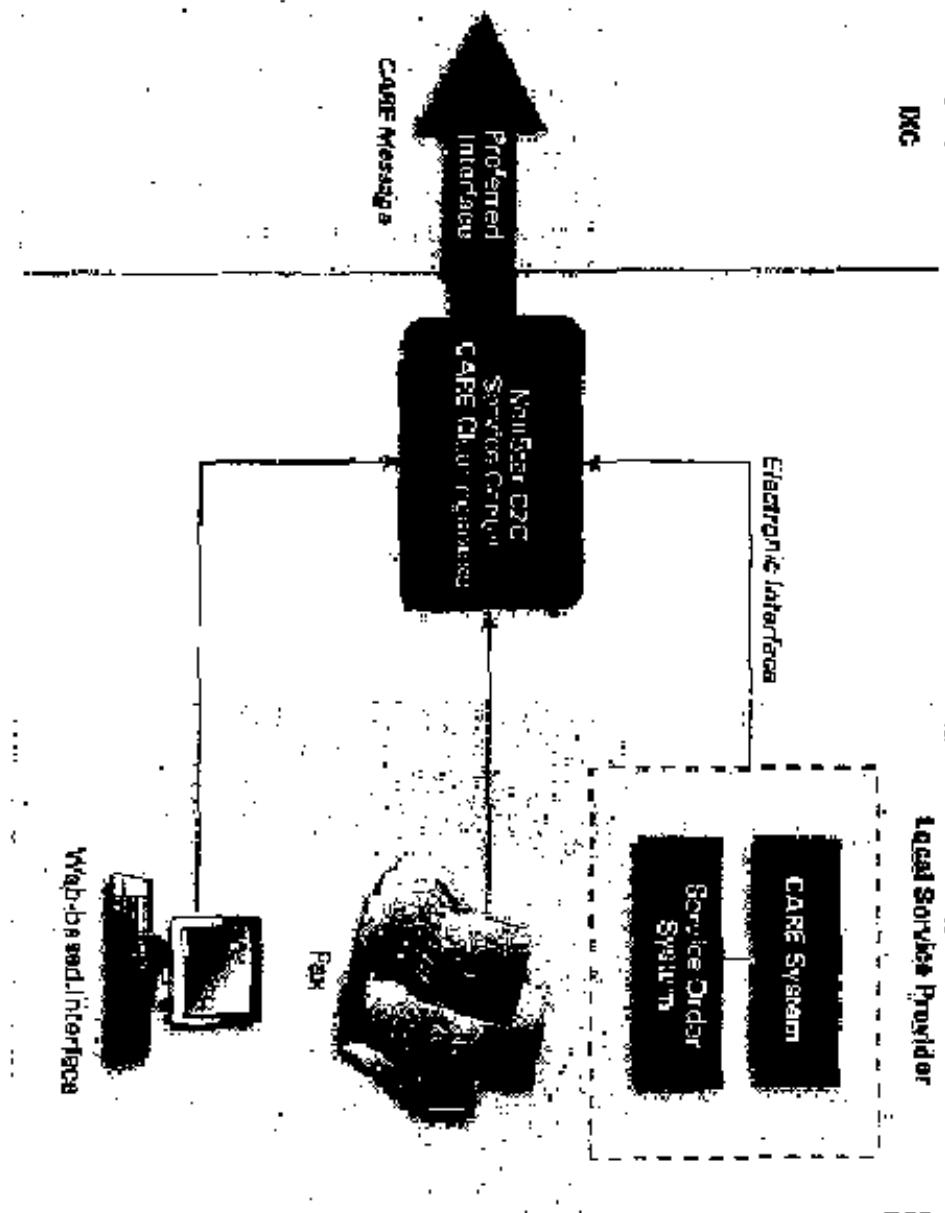
Reports available that track transaction quality and timeliness



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NeuStar Carrier-to-Carrier Service Center CARE Exchange: LSP to IXC



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because the provider that controls customer information also has control over a customer's business. In such a case, it can become very difficult for another provider to compete for that business.

In today's telecommunications environment, where a large number of carriers compete for customers, the best and simplest solution is to centralize CARE administration. Managing CARE from a central service point ensures the timeliness and accuracy of the information exchanged between providers, and assigning a neutral, unbiased provider that is unaligned with any carrier or group of carriers prevents further abuses of the process. Both customers and carriers win.

What Can Regulators do About PIC and CARE Problems?

A number of state regulatory bodies as well as NARUC are struggling with customer and/or carrier complaints on issues relating to CARE and PIC problems. Some have even formed working groups to focus on finding solutions (New York and the New England states, i.e., NBCPUC). More states need to give these problems the attention they deserve. Carriers used to doing things "the old way" need to be urged by regulators to adopt the "single aggregation point" solutions.

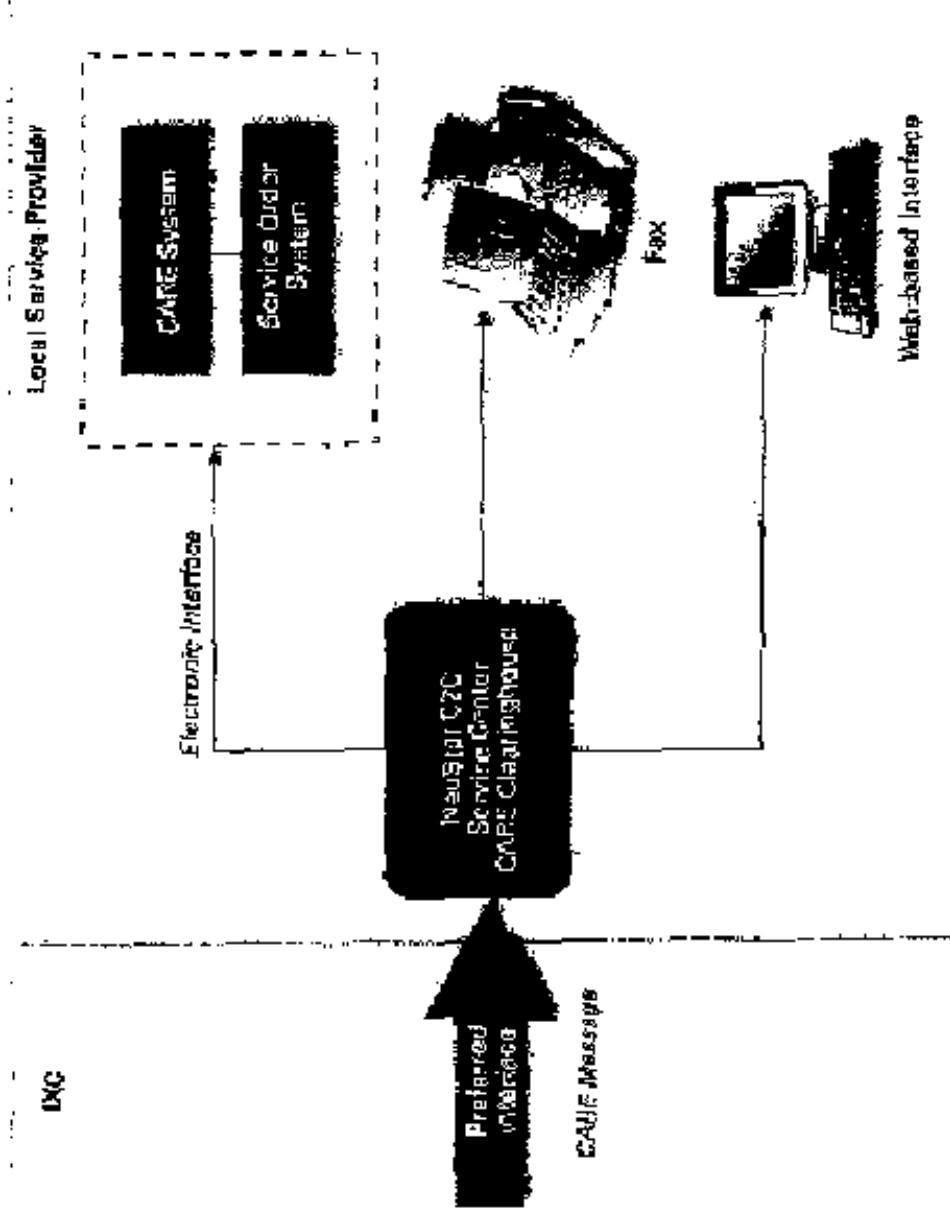
NeuStar, Inc., a trusted, neutral administrator of industry-wide services such as the North American Numbering Plan (NANP) and the Number Portability Administration Center, the NPAC, has designed both PIC and CARE administration solutions that can be implemented on a statewide basis within one year to 18 months. For states wishing to "prove the concept" both solutions can be deployed on a trial basis within six months. If deemed to be successful, the trial solutions can then be migrated into long-term solutions. NeuStar welcomes interest from state regulators and we are prepared to support the dialogue with concrete information about near-term, highly achievable solutions.

Conclusion

In today's telecommunications environment, where a large number of carriers compete for customers, it makes sense to centralize PIC and CARE administration. Managing PIC and CARE from a central service point ensures the timeliness and accuracy of the information exchanged between providers, and assigning a provider that is unaligned with any carrier or group of carriers prevents further abuses of the process. Both customers and carriers win.

Unbiased PIC administration and central CARE administration are achievable, near-term solutions. With the help of regulators who can encourage the participation by carriers, these solutions can go a long way toward making competition succeed.

NeuStar Carrier to Carrier Clearinghouse CARE Exchange: IXC to LSP



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Carrier Impacts Resulting From Problems with CARE Administration

A Billion Dollar Problem

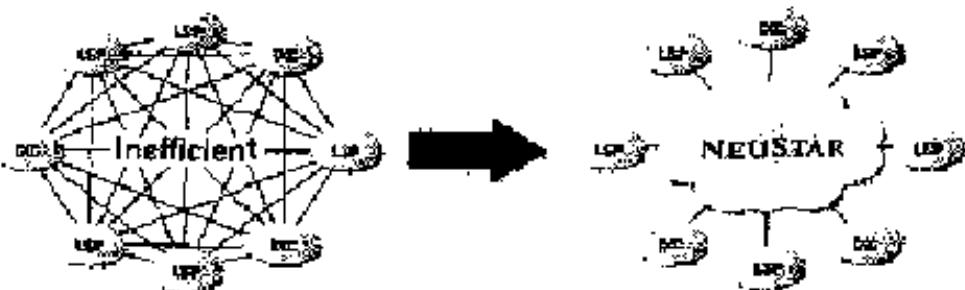
Carriers are also hurt by the failure of information exchange. When Bell companies and competitive local carriers resell their network services, the name of the reseller or UNE-P provider is rarely available to the long distance carrier. This is especially hurtful to carriers that have "casual calling" products that allow customers who do not need to pre-subscribe to dial a special string of digits (10-20-XXX) to access the carrier's network. These casual calling products are very popular among customers and represent a significant source of revenue—sometimes the majority of revenue—for many long distance companies. If these companies are unable to identify a customer who is accessing their network, they cannot bill for the call. Worse, they may inadvertently block calls from a customer who is willing to pay for making the call.

Estimates published by ATIS, the Alliance for Telecommunications Industry Solutions, reveal that one billion dollars annually is lost in revenue, missed opportunities to earn revenue, and operating cost increases. These revenue losses relate to billing problems that stem from the lack of reseller information that should be exchanged between local and long distance carriers. These losses are expected to increase every year.

Today, national long distance carriers and billing companies suffer most of these losses, but in the future, as more and more competitors enter the market, the problem will become even more prevalent. How can these problems be solved?

Central CARE Administration

Carriers have in their own networks solved a problem that is similar to the one presented by CARE. Hundreds of facilities-based carriers connect their signaling networks through hubs, or aggregation points, in order to reduce the costs of interconnection and ensure that calls are routed to the correct destination. This concept can easily be envisioned for CARE exchange; instead of all carriers connecting to one another to exchange information, they can connect their systems to a central service point—a CARE aggregation center. The simplicity of such a center can be seen in the diagram below.



If such a simple model exists, a simple question remains—why haven't carriers already adopted a central model for CARE, wherein customer information is available to entities authorized by the customer to provide service? The answer lies, again, in problems with competition. Retention of customer information is important to carriers. Some carriers are reluctant to solve the problem.

administration by operating inter-exchange Customer Service Centers, or ICSCs, and charging both carriers and consumers for their services. But now that they are competing for the right to be the customer's preferred inter-exchange carrier, Bell companies are no longer the right choice to administer PIC. The best solution to serve the consumer is to have this work performed by an unbiased, non-competitive PIC administrator.

By definition, an unbiased administration service is not owned or operated by any telecommunications service provider, and carriers may not influence it so that it would favor one carrier or group of carriers over another. Its priority is to serve the customer and to ensure that customer PIC information flows correctly and promptly between carriers. By keeping historical records on customer PIC information, an unbiased administrator could help regulators to mediate disputes between carriers and between carriers and customers. Regulators could track the behavior of industry participants with near-real time data. This is the best way to finally put an end to "slamming," "crumming," and customer billing frustrations caused by problems with PIC administration.

This is a simple idea – the movement of PIC administration from the incumbent to a neutral party – and, as Bell companies receive “271” opposition jurisdiction after jurisdiction, it’s an idea whose time has come.

The Problem with CARE Administration

In the early days of long distance competition, an industry record specification called CARE, the Customer Account Record Exchange, was developed to facilitate the exchange of customer account information between long distance companies and local service providers—then, the incumbent telephone companies (the Bells and the independents). The CARE record includes name, billing and service address information, service profile, customer PIC and reseller information.

CARE exchange between local and long distance carriers worked well for years, but today, with the proliferation of carriers and resellers in the marketplace, CARE exchange often breaks down.

Customer Impacts Resulting From Problems with CARE Administration

- CARE record quality has degraded significantly: Many new local carriers have entered the market and are unfamiliar with CARE practices. Records are either slow to be sent, sent in a format that does not meet the industry standard, or not sent at all. When this happens...
 - CARE isn't processed in a timely basis, resulting in customer billing problems that are time consuming and difficult to solve
 - Service problems and service interruptions are all too frequent when customers exercise their right to change carriers because the new carrier isn't brought into the 'information loop' through the prompt receipt of a CARE record, or the old carrier isn't notified promptly that the customer has moved.

- **Complicated and complex processes to solve billing problems resulting from mismanagement of PIC.** Customers are often confused when trying to decide which carrier—local or long distance, old or new—to call in order to resolve a billing problem. If they choose the wrong carrier, the problem can take days or even weeks to solve.

Although all of these problems occur all too frequently, "slamming" and PIC Freeze problems can be expected to worsen as the incumbent Bell companies—formerly considered neutral parties suitable to collect and administer PIC information from customers—are being given authority to compete for long distance customers. The incumbent Bells were moderately successful in helping to prevent "slamming" in the past. Now, as they compete with long distance companies to win customers, they have no incentive to act in a neutral manner to administer customer PIC information.

Carrier Impacts Resulting From Problems with PIC Administration

To get new business and to "milk" that business for sustainable revenues, competitive carriers rely on the ability of the customer to freely change carriers. In the current environment, that's sometimes difficult for customers to understand or manage.

- **The local carrier can freeze the customer's PIC without his/her knowledge.** So, the customer may inform the new inter-exchange carrier that they wish to move, but the move doesn't actually take place because of the PIC freeze.
- **If the customer's PIC change is not made in a timely fashion, the old carrier may continue to bill the customer at the same time the new carrier is sending bills.** Billing problems resulting from this mismanagement are difficult and time-consuming to solve. This frustrates the customer and often results in the customer mistrusting the new and/or the old carrier and in being more reluctant to change carriers in the future.

Neutral PIC Administration

A Simple, Highly Achievable Solution

Competition may have caused these problems, but we do not have to sacrifice competition to solve them. Further, if an acceptable solution is not found, these problems will actually serve as a barrier to competition. If customers are unable to move freely between carriers and carriers see their addressable market shrinking as a result, then competition and the customer lose. Fortunately, an achievable solution exists that will greatly improve the PIC administration process while preserving the competitive environment that consumer groups and regulators have fought so hard and so long to create.

An Unbiased PIC Administrator

In an environment where once-neutral incumbent local carriers have now been granted the freedom to compete for long distance customers, the next logical step is to transfer administration of the customer's choice of carrier to an unbiased PIC administrator. For years, incumbent local carriers were the responsible choice for the administration of PIC. Although their efforts to prevent "slamming" have been only moderately successful, they have otherwise done well in that capacity. They have also greatly benefited; Bell companies enjoy a healthy revenue stream from PIC

PIC and CARE Administration

Industry Problems in Search of Simple Solutions

The primary driver for competition in the U.S. over the course of the past 17 years has been to give consumers and businesses the ability to choose their service providers and, once having chosen, to change their minds and to "switch" to a new provider. This happened first in 1984 for long distance for both wireline business and residential consumers, then again in 1996, for local service for wireline business customers and will happen for wireless subscribers beginning next year in November 2002.

This freedom to choose has resulted in many benefits. Customers can reduce their telecommunications costs by price shopping for carriers; improve the quality of their services or the variety of services available to them by changing carriers. It has also stimulated carriers to roll out new products and services that they may not have done otherwise, to differentiate themselves in order to attract new customers.

To enable these freedoms, laws and regulations had to be enacted to remove barriers to change. In 1984, to enable choice in long distance carriers, both local and long distance providers were required to make changes in how switches were programmed and how information about customers' preferred inter-exchange carrier (PIC) choices are collected and managed. In 1996, to enable choice in local carriers, local and long distance providers were required to make even more sweeping changes—to their networks, to the manner in which they interconnected with each other and to how they did business with each other.

The focus of this paper is how changes to the business relationships between carriers have created big problems for customers and carriers alike. We'll examine these impacts, below, and then discuss several promising, highly achievable solutions.

The Problem with PIC Administration

In 1984, at the time of divestiture, it was determined that incumbent local exchange carriers would be responsible for administering the customer's choice of preferred inter-exchange carrier (PIC). The incumbents were a natural choice for this job—they were prohibited from providing long distance service and therefore had no incentive to mis-manage PIC. This arrangement worked well for years. But the entry of incumbents into long distance as they receive "271" approvals has introduced several factors that have and will continue to cause this arrangement to break down.

Customer Impacts Resulting from PIC Administration Problems

- "Slamming," which happens when a new long distance carrier changes the customer's choice of PIC without asking the customer. This problem continues to plague the industry.
- Problems with PIC Freeze—the local carrier automatically freezes the customer's PIC without his/her knowledge, making it difficult for the customer to change carriers
- "Crumming" or "soft slam," which happens when both the old and new carriers bill the customer

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